

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF AUBURN	County BAY
Audit Date JUNE 30, 2004	Opinion Date NOVEMBER 5, 2004	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGR).			X

Certified Public Accountant (Firm Name) BURNSIDE & LANG, P.C.			
Street Address 5915 EASTMAN AVENUE, SUITE 100	City MIDLAND	State MI	ZIP 48640
Accountant Signature <i>Markus Lee</i> <i>CR, CPA</i> 2/1/05			

**CITY OF AUBURN**  
**BAY COUNTY, MICHIGAN**

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**FINANCIAL STATEMENTS**  
For The Year Ended June 30, 2004

CITY OF AUBURN

CITY COUNCIL

John McNally	Mayor
Richard Fletcher	Commissioner
Ann Machelski	Commissioner
B.J. Raab	Commissioner
William Reder	Commissioner
Cynthia Rhynard	Commissioner
James Zoller	Commissioner

MANAGEMENT

JoElla Krantz	City Administrator
Lucille Wiesenauer	City Clerk/Treasurer

CITY POPULATION–2000 CENSUS  
2,011

STATE EQUALIZED VALUE–2003  
\$48,901,600

STATE TAXABLE VALUE–2003  
\$43,850,493

**CITY OF AUBURN  
BAY COUNTY, MICHIGAN  
AUDITED FINANCIAL STATEMENTS  
JUNE 30, 2004**

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Independent Auditors' Report

Members of the City Commission  
City of Auburn  
Bay County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Auburn, Bay County, Michigan (the "City"), as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Auburn, Bay County, Michigan, as of June 30, 2004, and the respective changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in footnote 9, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No.34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, as of June 30, 2004.

The management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 32 through 34, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Auburn's basic financial statements. The combining fund financial statements on pages 35 and 36 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Burnside & King, P.C.*

Midland, Michigan

November 5, 2004

**CITY OF AUBURN  
MANAGEMENT'S DISCUSSION AND ANALYSIS LETTER  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

The following discussion and analysis of the City of Auburn's financial performance presents management's overview of the City's financial activities for the year ended June 30, 2004. Please read it in conjunction with the City's basic financial statements, which begin immediately following this analysis. This annual financial report consists of two parts – Management's Discussion and Analysis (this section) and the Basic Financial Statements.

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. GASB No. 34 established financial reporting standards for state and local governments, including cities, villages and townships. GASB No. 34 required the following changes to the City's financial statements:

1. The *Statement of Net Assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The net assets section is displayed in three categories: 1) Invested Capital Assets, net of related debt, 2) Restricted, 3) Unrestricted.
2. The *Statement of Revenues, Expenses, and Changes in Net Assets* presents information showing how the City's net assets changed during the most recent fiscal year. This statement measures the success of the City's operations over the past year and can be used to determine the City's creditworthiness.
3. The *Statement of Cash Flows* now includes a summarization of the cash flows from operations and investments during the reporting period. As in the past, the Statement of Cash Flows continues to reconcile the reasons why cash from operating activities differs from operating income.

**Overview of the Basic Financial Statement**

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.



The *statement of net assets* includes all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases in net assets may serve as a useful indicator of whether the City's financial position is improving or deteriorating. Net assets are displayed in three categories:

- Invested in Capital Assets, Net of Related Debt
- Restricted
- Unrestricted

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (**governmental activities**) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (**business-type activities**). The governmental activities of the City include: general government, public safety, streets, sanitation and recreation. The business-type activities of the City include: a water and sewer system and motor pool.

The government-wide financial statements include not only the City itself (known as the primary government), but also the Downtown Development Authority. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

**Fund Financial Statement.** The fund financial statements provide more detailed information about the City's major funds individually. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Auburn, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of government funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental

funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Auburn maintains five (5) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Local Street Fund and the Major Street Fund which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general fund and special revenue funds. A budgetary comparison statement has been provided for the general and other major funds to demonstrate compliance with this budget.

**Proprietary funds.** The City of Auburn maintains three (3) proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer activity. The internal service fund is an accounting device used to accumulate and allocate costs internally among the City's various functions. The City Of Auburn uses an internal service fund to account for its fleet of vehicles and other equipment.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

### **Analysis of the Government-Wide Financial Statements**

The government-wide financial report represents the new approach mandated by the Governmental Accounting Standards Board (GASB). GASB sets the uniform standard for presenting governmental financial reports. This report represents the first year the City of Auburn applied this standard and the amount of comparative financial information from previous years is limited. Subsequent years' financial reports will provide complete comparative information in this Management Discussion and Analysis.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City Of Auburn, assets exceeded liabilities by \$3,776,351 at the close of the most recent fiscal year. City of Auburn's increase in net assets for this fiscal year amounts to \$170,277.

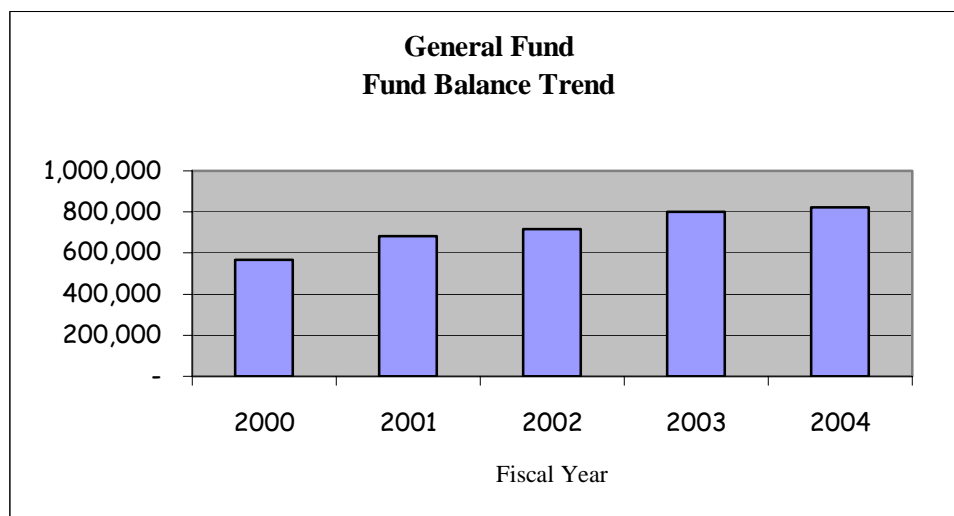
The largest portion of the City's net assets (72%) reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any accumulated depreciation and related debt used to acquire those assets that is still outstanding. The City used these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investments in its capital is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (19%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$299,008 may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole as well as for its separate governmental and business-type activities.

**Governmental Activities.** Governmental activities increased the City's net assets by \$111,582 accounting for 66% of the total growth in the net assets of the City.

The General Fund is the chief operating fund of the City. As of the end of the fiscal year, total fund balance for the General Fund was \$821,539, an increase of \$21,378 over prior year balance, a 2.7% increase over the previous year. Following is a chart of the General Fund fund balance trend over the last five years.



**Business-type activities.** Business-type activities increased the City's net assets by \$58,695 accounting for 32% of the total growth in the City's net assets. The Water Fund continued to invest capital assets to replace its aging infrastructure with the completion of Macomber and Grant Street watermain replacements. The Sewer Fund will continue to build capital reserves for future replacement and repairs of the Nine Mile Road pump station.

### **General Fund Budgetary Highlights**

Budget and actual comparison statements are provided in the Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual for the General Fund and all major special revenue funds with annually appropriated budgets. These statements show the original budget, final budget, actual amounts, and the variances between actual and final budgeted amounts. Operating the City is a dynamic undertaking and budget amendments are approved throughout the year. Budgets are revised for a variety of reasons, such as unanticipated revenues or unforeseen expenditures. Over the course of the fiscal year the City Commission revised the budget two times.

### **Capital Asset and Debt Administration**

**Capital assets.** At June 30, 2004 the City had \$3.3 million invested in capital assets, including buildings, equipment, park and recreation facilities and water and sewer lines.

**Long-Term Debt.** At June 30, 2004, the City of Auburn had total bonded debt outstanding of \$1,068,036. Additional information can be found in the Notes to the Financial Statements, Note 6.

### **Economic Factors**

The General Operating Fund of the City is primarily reliant on distributions of state shared revenues and property taxes. State shared revenues have continued to decline. State revenues are at their lowest since 1970. At this writing, the State of Michigan's revenues are, once again, falling below projections. This may impact Auburn through further reductions in State revenue sharing. To date these revenue reductions have been masked because of our growth and increased property tax revenues. The City will continue to monitor revenues and expenditures to ensure the City maintains a balanced budget.

### **Financial Contact**

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or need additional financial information, please contact the City's Administrator at 113 E. Elm Street, Auburn, Michigan 48611.

**CITY OF AUBURN**  
**GOVERNMENT-WIDE STATEMENT OF NET ASSETS**  
**June 30, 2004**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Downtown Development Authority
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,198,351	\$ 326,279	\$ 1,524,630	\$ 375,039
Accounts receivable, net	47,065	68,190	115,255	-
Taxes receivable, net	24,310	-	24,310	-
Other receivables, net	2,445	-	2,445	224
Due from other funds	178,722	-	178,722	-
Due from other governmental units	25,012	-	25,012	-
Inventory	62	-	62	-
Prepaid items	5,301	12,454	17,755	-
Capital assets:				
Land	61,570	36,000	97,570	13,000
Land improvements, net	36,617	-	36,617	-
Buildings and improvements, net	114,993	-	114,993	53,859
Equipment and vehicles, net	350,651	-	350,651	-
Infrastructure, net	-	2,740,128	2,740,128	-
Total capital assets	563,831	2,776,128	3,339,959	66,859
<b>Total assets</b>	<b>2,045,099</b>	<b>3,183,051</b>	<b>5,228,150</b>	<b>442,122</b>
<b>LIABILITIES</b>				
Accounts payable	74,407	55,282	129,689	-
Accrued expenses	12,372	1,210	13,582	-
Due to other funds	50,819	125,000	175,819	-
Deposits and other liabilities	2,403	-	2,403	-
Long-term liabilities:				
Portion due or payable within one year:				
Bonds and contracts payable	100,804	-	100,804	-
Compensated absences	6,225	-	6,225	-
Portion due or payable after one year:				
Bonds and contracts payable	967,232	-	967,232	-
Compensated absences	56,045	-	56,045	-
<b>Total liabilities</b>	<b>1,270,307</b>	<b>181,492</b>	<b>1,451,799</b>	<b>-</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	563,831	2,776,128	3,339,959	66,859
Restricted for:				
Streets, roads and bridges	128,424	-	128,424	-
Debt service	8,960	-	8,960	-
Unrestricted	73,577	225,431	299,008	375,263
<b>Total net assets</b>	<b>\$ 774,792</b>	<b>\$ 3,001,559</b>	<b>\$ 3,776,351</b>	<b>\$ 442,122</b>

The accompanying notes are an integral part of these financial statements.



**CITY OF AUBURN**  
**GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2004**

Activities:	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit - DDA
					Governmental Activities	Business-Type Activities	Total	
<b>Governmental:</b>								
General government	\$ 211,083	\$ 9,098	\$ -	\$ -	\$ (201,985)		\$ (201,985)	
Public safety	237,802	16,158	-	-	(221,644)		(221,644)	
Public works	546,633	109,822	147,286	-	(289,525)		(289,525)	
Community and economic development	11,018	-	-	-	(11,018)		(11,018)	
Recreation and culture	71,374	4,359	1,345	-	(65,670)		(65,670)	
Interest and fiscal charges	67,728	-	-	-	(67,728)		(67,728)	
Total governmental activities	1,145,638	139,437	148,631	-	(857,570)		(857,570)	
<b>Business-type:</b>								
Sewer	220,667	261,481	-	-		\$ 40,814	40,814	
Water	253,020	270,039	-	-		17,019	17,019	
Total business-type activities	473,687	531,520	-	-		57,833	57,833	
Total Primary Government	\$ 1,619,325	\$ 670,957	\$ 148,631	\$ -	(857,570)	57,833	(799,737)	
<b>Component units:</b>								
Downtown Development Authority	\$ 5,277	\$ -	\$ -	\$ -				\$ (5,277)
General revenues:								
Property taxes, levied for general purposes					376,124	-	376,124	122,628
Property taxes, levied for roads					219,281	-	219,281	-
State aid					201,888	-	201,888	-
Investment earnings					15,869	2,251	18,120	2,818
Miscellaneous					134,826	19,775	154,601	-
Transfers					21,164	(21,164)	-	-
Total general revenues and transfers					969,152	862	970,014	125,446
Change in net assets					111,582	58,695	170,277	120,169
Net assets-beginning					663,210	2,942,864	3,606,074	321,953
Net assets-ending					\$ 774,792	\$ 3,001,559	\$ 3,776,351	\$ 442,122

The accompanying notes are an integral part of these financial statements.

**CITY OF AUBURN**  
**GOVERNMENTAL FUND BALANCE SHEET**  
**June 30, 2004**

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 660,931	\$ 77,057	\$ 29,428	\$ 240,620	\$ 1,008,036
Accounts receivable, net	47,065	-	-	-	47,065
Taxes receivable, net	16,599	-	-	7,711	24,310
Due from other funds	130,600	43,659	4,463	-	178,722
Due from other governmental units	-	17,851	7,161	-	25,012
Inventories	-	-	-	62	62
Other receivables	2,445	-	-	-	2,445
Prepaid items	3,469	583	713	-	4,765
<b>Total assets</b>	<b><u>\$ 861,109</u></b>	<b><u>\$ 139,150</u></b>	<b><u>\$ 41,765</u></b>	<b><u>\$ 248,393</u></b>	<b><u>\$ 1,290,417</u></b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 25,430	\$ 45,363	\$ 2,420	\$ 150	\$ 73,363
Accrued expenses	11,737	119	126	-	11,982
Due to other funds	-	4,463	-	46,356	50,819
Deposits and other liabilities	2,403	-	-	-	2,403
Total liabilities	<u>39,570</u>	<u>49,945</u>	<u>2,546</u>	<u>46,506</u>	<u>138,567</u>
Fund balances:					
Reserved for:					
Prepaid items	3,469	-	-	-	3,469
Unreserved and undesignated	818,070	89,205	39,219	201,887	1,148,381
Total fund balances	<u>821,539</u>	<u>89,205</u>	<u>39,219</u>	<u>201,887</u>	<u>1,151,850</u>
<b>Total liabilities and fund balances</b>	<b><u>\$ 861,109</u></b>	<b><u>\$ 139,150</u></b>	<b><u>\$ 41,765</u></b>	<b><u>\$ 248,393</u></b>	<b><u>\$ 1,290,417</u></b>

The accompanying notes are an integral part of these financial statements.

**CITY OF AUBURN**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**  
**June 30, 2004**

Total fund balances for governmental funds (Exhibit 4) \$ 1,151,850

Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$	61,570	
Land improvements, net of \$172,768 accumulated depreciation		36,617	
Buildings and improvements, net of \$70,188 accumulated depreciation		92,592	
Equipment, net of \$70,512 accumulated depreciation		22,000	
Furniture and fixtures, net of \$6,910 accumulated depreciation		11,766	
Total capital assets		224,545	224,545

The internal service funds (see Exhibit 6) are used by the City to charge the cost of operating a motor pool to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. The internal service fund's net assets are:

528,703

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets. Balances at June 30, 2004 are:

Sewage Disposal Bonds	\$	(108,675)	
Auburn Drain Contract		(269,361)	
Michigan Transportation Bonds		(465,000)	
Midland Road General Obligation Bonds		(225,000)	
Compensated absences		(62,270)	
		(1,130,306)	(1,130,306)

Total net assets of governmental activities (Exhibit 2) \$ 774,792

The accompanying notes are an integral part of these financial statements.



**CITY OF AUBURN**  
**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES**  
**For the Year Ended June 30, 2004**

	General	Major Street	Local Street	Other Governmental Funds	Total
<b>REVENUES</b>					
Property taxes and related fees	\$ 384,454	\$ -	\$ -	\$ 219,281	\$ 603,735
Licenses and permits	2,174	-	-	14,422	16,596
State aid	201,888	105,151	42,135	-	349,174
Charges for services	118,482	-	-	-	118,482
Interest and dividends	12,792	246	75	2,756	15,869
Rents and royalties	4,359	-	-	-	4,359
Fines and forfeits	1,895	-	-	-	1,895
Special assessments, net	78,893	-	-	-	78,893
Donations	1,345	-	-	-	1,345
Miscellaneous	37,663	5,437	2,608	-	45,708
Total revenues	<u>843,945</u>	<u>110,834</u>	<u>44,818</u>	<u>236,459</u>	<u>1,236,056</u>
<b>EXPENDITURES</b>					
General government	196,683	-	-	-	196,683
Public safety	221,718	-	-	13,173	234,891
Public works	225,483	264,496	56,632	22	546,633
Community and economic development	11,018	-	-	-	11,018
Recreation and culture	65,267	-	-	-	65,267
Capital outlay	35,782	-	-	-	35,782
Debt service	-	-	-	168,533	168,533
Total expenditures	<u>755,951</u>	<u>264,496</u>	<u>56,632</u>	<u>181,728</u>	<u>1,258,807</u>
Excess (deficiency) of revenues over expenditures	<u>87,994</u>	<u>(153,662)</u>	<u>(11,814)</u>	<u>54,731</u>	<u>(22,751)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers-in	-	189,800	26,313	173,483	389,596
Transfers-out	(66,616)	(26,313)	-	(275,503)	(368,432)
Total other financing sources and uses	<u>(66,616)</u>	<u>163,487</u>	<u>26,313</u>	<u>(102,020)</u>	<u>21,164</u>
Net change in fund balances	21,378	9,825	14,499	(47,289)	(1,587)
Fund balances-beginning	800,161	79,380	24,720	249,176	1,153,437
Fund balances-ending	<u>\$ 821,539</u>	<u>\$ 89,205</u>	<u>\$ 39,219</u>	<u>\$ 201,887</u>	<u>\$ 1,151,850</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF AUBURN**  
**RECONCILIATION OF THE STATEMENT OF REVENUE,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**OF GOVERNMENTAL FUNDS TO THE**  
**STATEMENT OF ACTIVITIES**  
**June 30, 2004**

Net change in fund balances - total governmental funds (Exhibit 5)	\$	(1,587)
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The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$35,782) exceeded depreciation (\$23,417) in the current period.		12,365
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Debt proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Repayments:

Sewage Disposal Bonds	\$	25,875	
Auburn Drain Contract		29,929	
Michigan Transportation Bonds		30,000	
Midland Road General Obligation Bonds		15,000	100,804

Change in net assets of governmental activities (Exhibit 3)	\$	111,582
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The accompanying notes are an integral part of these financial statements.



**CITY OF AUBURN**  
**PROPRIETARY FUND STATEMENT OF NET ASSETS**  
**June 30, 2004**

	<b>Enterprise Funds</b>			<b>Motor Pool</b>
	<b>Sewer</b>	<b>Water</b>	<b>Total</b>	<b>Internal Service</b>
	<b>Fund</b>	<b>Fund</b>		<b>Fund</b>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 183,645	\$ 142,634	\$ 326,279	\$ 190,315
Accounts receivable, net	22,726	45,464	68,190	-
Prepaid items	11,797	657	12,454	536
Total current assets	218,168	188,755	406,923	190,851
Noncurrent assets:				
Land and improvements	36,000	-	36,000	-
Equipment, net	-	-	-	339,286
Infrastructure, net	1,149,602	1,590,526	2,740,128	-
Total noncurrent assets	1,185,602	1,590,526	2,776,128	339,286
Total assets	1,403,770	1,779,281	3,183,051	530,137
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	42,267	13,015	55,282	1,044
Accrued expenses	448	762	1,210	390
Due to other funds	-	125,000	125,000	-
Total liabilities	42,715	138,777	181,492	1,434
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	1,185,602	1,590,526	2,776,128	339,286
Unrestricted	175,453	49,978	225,431	189,417
Total net assets	\$ 1,361,055	\$ 1,640,504	\$ 3,001,559	\$ 528,703

The accompanying notes are an integral part of these financial statements.

**CITY OF AUBURN**  
**STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2004**

	Enterprise Funds			Motor Pool
	Sewer Fund	Water Fund	Total	Internal Service Fund
<b>OPERATING REVENUES</b>				
Charges for services	\$ 261,481	\$ 260,072	\$ 521,553	\$ 161,037
Miscellaneous	-	9,967	9,967	-
Total operating revenues	261,481	270,039	531,520	161,037
<b>OPERATING EXPENSES</b>				
Salaries and wages	14,153	23,897	38,050	24,257
Employee benefits	4,675	8,665	13,340	10,236
Supplies	5,871	16,362	22,233	7,664
Dues and fees	-	1,439	1,439	-
Gas and oil	-	-	-	10,099
Uniforms	-	-	-	2,331
Contracted services	750	1,976	2,726	852
Telephone and communications	661	416	1,077	-
Insurance	7,239	1,125	8,364	9,575
Utilities	4,085	209	4,294	3,420
Sewage treatment	133,611	-	133,611	-
Water purchases	-	145,121	145,121	-
Repairs and maintenance	6,708	578	7,286	31,453
Equipment rental	6,322	14,818	21,140	-
Miscellaneous	575	954	1,529	672
Education and training	-	1,067	1,067	-
Depreciation	36,017	36,393	72,410	40,124
Total operating expenses	220,667	253,020	473,687	140,683
Operating income (loss)	40,814	17,019	57,833	20,354
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment earnings	1,183	1,068	2,251	2,500
Other nonoperating revenue	9,335	10,440	19,775	-
Gain (loss) on sale of assets	-	-	-	10,501
Total nonoperating revenue (expenses)	10,518	11,508	22,026	13,001
Income (loss) before capital grants and transfers	51,332	28,527	79,859	33,355
<b>TRANSFERS</b>				
Transfers in	-	12,400	12,400	-
Transfers (out)	(33,564)	-	(33,564)	-
Changes in net assets	17,768	40,927	58,695	33,355
Total net assets-beginning	1,343,287	1,599,577	2,942,864	495,348
Total net assets-ending	\$ 1,361,055	\$ 1,640,504	\$ 3,001,559	\$ 528,703

The accompanying notes are an integral part of these financial statements.

**CITY OF AUBURN**  
**PROPRIETARY FUND STATEMENT OF CASH FLOWS**  
**For the Year Ended June 30, 2004**

	<b>Enterprise Funds</b>			<b>Motor Pool Internal Service Fund</b>
	<b>Sewer Fund</b>	<b>Water Fund</b>	<b>Total</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 268,844	\$ 247,512	\$ 516,356	\$ 161,037
Payments to suppliers	(160,424)	(169,410)	(329,834)	(64,115)
Payments to employees	(18,643)	(32,201)	(50,844)	(34,394)
Internal activity-payments from (to) other funds	(6,322)	(14,818)	(21,140)	-
Other receipts	-	9,967	9,967	-
Net cash provided (used) by operating activities	83,455	41,050	124,505	62,528
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers in	-	12,400	12,400	-
Transfers (out)	(33,564)	-	(33,564)	-
Nonoperating revenue	9,335	10,440	19,775	-
Interfund loans-proceeds and collections	-	125,000	125,000	-
Net cash provided by noncapital financing activities	(24,229)	147,840	123,611	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Purchases and construction of capital assets	-	(283,212)	(283,212)	(105,965)
Proceeds from the sale of assets	-	-	-	10,501
Net cash used by capital and related financing activities	-	(283,212)	(283,212)	(95,464)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest and dividends	1,183	1,068	2,251	2,500
Net increase in cash and cash equivalents	60,409	(93,254)	(32,845)	(30,436)
Balances-beginning of the year	123,236	235,888	359,124	220,751
Balances-end of the year	\$ 183,645	\$ 142,634	\$ 326,279	\$ 190,315
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>				
Operating income (loss)	\$ 40,814	\$ 17,019	\$ 57,833	\$ 20,354
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	36,017	36,393	72,410	40,124
Change in assets and liabilities:				
Receivables, net	7,363	(12,560)	(5,197)	-
Prepaid items	(9,879)	110	(9,769)	1,391
Accounts payable	8,955	(273)	8,682	560
Accrued expenses	185	361	546	99
Net cash provided (used) by operating activities	\$ 83,455	\$ 41,050	\$ 124,505	\$ 62,528

The accompanying notes are an integral part of these financial statements.



**CITY OF AUBURN**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**June 30, 2004**

		<u>Agency Funds</u>	
		<u>Current Tax</u>	
	<u>Payroll</u>	<u>Collection</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 124	\$ 3,003	\$ 3,127
Total assets	<u>124</u>	<u>3,003</u>	<u>3,127</u>
<b>LIABILITIES</b>			
Due to other funds	-	2,903	2,903
Other liabilities	<u>124</u>	<u>100</u>	<u>224</u>
Total liabilities	<u>124</u>	<u>3,003</u>	<u>3,127</u>
<b>NET ASSETS</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF AUBURN  
BAY COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the City conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

**A. Reporting Entity**

The City of Auburn (the "City") was organized in 1947 and covers an area of approximately one square mile. The City is governed by an elected Mayor and Board of Commissioners (6 members) with a City Administrator overseeing daily operations. The City provides services to its various residents in many areas, including law enforcement, health and sanitation, community enrichment and development and human services. As required by GAAP, these financial statements present the City and its component units. In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, "*The Financial Reporting Entity*."

The individual component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationships with the City.

**Discretely Presented Component Unit**

The following component unit is reported within the "component unit" column in the combined financial statements. The discretely presented component unit is an entity that is legally separate from the City, but for which the City is financially accountable, or its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete.

Downtown Development Authority (DDA) - The DDA was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The DDA operates under the directorship of a board consisting of nine members appointed by the City Commission. The City Commission approves the annual budget of the DDA. The DDA has not entered into any contracts, hired employees, issued debt or purchased assets. The DDA does not issue separate financial statements.



**CITY OF AUBURN  
BAY COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Jointly Governed Organizations**

Auburn-Williams Fire Protection District - The City of Auburn and Williams Township jointly govern the Auburn-Williams Fire Protection District. The funding formula requires that the City provide 30% and Williams Township 70% of the operational and building costs. The Auburn-Williams Fire District has title to all property, plant and equipment. All of the financial operations of the Fire Protection district are recorded in the Auburn Williams District.

Auburn Area Solid Waste Management Authority - The City of Auburn, Williams Township and Beaver Township jointly govern the Authority. Each municipality is liable for their share of any expenditures incurred. As of June 30, 2004, the City has not received any revenue or incurred any expenditures related to the Authority. The Authority has not entered into any contract, hired employees, issued debt or purchased assets. All of the financial operations of the Authority are recorded by the Auburn Area Solid Waste Management Authority.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contribution that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

**CITY OF AUBURN  
BAY COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual—that is, when they become both measurable and available to finance expenditures of the fiscal period. Revenue susceptible to accrual include property taxes, state revenue sharing and interest.

The City property tax is levied each December 1<sup>st</sup> on the taxable valuation of property (as defined by State statutes) located in the City as of the preceding December 31<sup>st</sup>.

The 2003 taxable valuation of the City totaled \$43.9 million, on which ad valorem taxes levied consisted of 9.76 mills for City operating purpose, 1.236 mills for drains, and 5.000 mills for road repairs. These amounts are recognized in the General Fund and the Road Revolving Fund as property taxes and related fees.

**CITY OF AUBURN  
BAY COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The government reports the following major funds:

The General Fund is the governments primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the receipt and expenditures of State motor fuel taxes which are earmarked by law for major street and highway purposes.

The Local Street Fund is used to account for the receipt and expenditure of State motor fuel taxes which are earmarked by law for local street and highway purposes.

The government reports the following major proprietary funds:

The Sewer Fund is used to record the revenues and expenses for the operation of the sewer system. Capital assets are recorded within the fund and depreciation is charged.

The Water Fund is used to record the revenues and expenses for the operation of the water system. Capital assets are recorded within the fund and depreciation is charged.

Additionally, the government reports the following fund types:

The Motor Pool Fund is an internal service fund, which accounts for major machinery and equipment purchases and maintenance to provide services to other departments of the government on a cost reimbursement basis.

The Current Tax Collection Fund is used to account for resources held by the City in a purely custodial capacity. Money in this fund is from current tax and special assessment collections. Timely distribution to the appropriate fund and local unit must be made in accordance with Section 43 of the General Property Tax Act.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

**CITY OF AUBURN  
BAY COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue the City's proprietary funds relate to charges to customers for sales and services. The sewer and water fund also recognizes the portion of tap fees intended to recover current costs as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

**D. Assets, Liabilities, and Net Assets**

Bank Deposits and Investments—Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables—In general, outstanding balances between funds are reported as "due to/from other funds". Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds".

All trade and property tax receivables are shown net of allowance for uncollectible amounts. Property taxes are levied on each December 1<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on March 1<sup>st</sup> of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items—Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect cost applicable to future years and are recorded as prepaid items in the government-wide and fund statements.

**CITY OF AUBURN  
BAY COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Restricted Assets—The revenue bonds of the enterprise funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

Capital Assets—Capital assets, which include property, plant, equipment and infrastructure assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred, if any, during the construction of capital assets of business-type activities is included in the capitalized value of the assets constructed.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building improvements	15 to 30 years
Sewer and water systems	50 to 75 years
Office equipment	5 to 10 years
Computer equipment	3 to 5 years

Compensated Absences (Vacation and Sick Leave)—It is the City's policy to permit employees to accumulate a limited amount of earned but unused vacation and sick leave, which will be paid to employees upon separation from the City. Sick leave is paid only upon retirement and is limited to the lesser of one-half of the total accumulation or 60 days. Employees are paid all of their accumulated vacation pay upon termination of employment for any reason.

In governmental funds, the cost of vacation and sick leave is recognized when payments are made to the employees. The long term portion of unpaid sick and vacation pay that is applicable to governmental fund types is reported in the Statement of Net Assets.

**CITY OF AUBURN  
BAY COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Long-Term Obligations—In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity—In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations, if any, of fund balance represent tentative management plans that are subject to change.

**NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgetary Information—Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The budget document presents information by fund, function, department or activity, and line items. The legal level of budgetary control adopted by the governing body is at the fund level for all other governmental fund types.

**NOTE 3. DEPOSITS AND INVESTMENTS**

Michigan Compiled Laws, Section 129.91, authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The City is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers acceptances of United States banks' commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government.



**CITY OF AUBURN  
BAY COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004**

**NOTE 3. DEPOSITS AND INVESTMENTS (Continued)**

The City Council has designated ten banks for the deposit of City funds. The investment policy adopted by the council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and certificates of deposit, but not the remainder of State statutory as listed above.

The City's deposits and investment policy are in accordance with statutory authority.

At year-end, the City's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business- Type Funds	Fiduciary Funds	Total Primary Government	Component Unit
Cash and cash equivalents	\$ 1,198,351	\$ 326,279	\$ 3,127	\$ 1,527,757	\$ 375,039
Total	<u>\$ 1,198,351</u>	<u>\$ 326,279</u>	<u>\$ 3,127</u>	<u>\$ 1,527,757</u>	<u>\$ 375,039</u>

The breakdown between deposits and investments is as follows:

	Primary Government	Component Unit
Bank Deposits (checking and savings, certificate of deposit)	\$ 1,527,607	\$ 375,039
Petty Cash and Cash on Hand	150	-
Total	<u>\$ 1,527,757</u>	<u>\$ 375,039</u>

The bank balance of the primary government deposits is \$1,635,497, of which \$900,000 is covered by federal deposit insurance. The component unit's deposit had a bank balance of \$377,039 of which \$200,000 is covered by federal deposit insurance.

**CITY OF AUBURN  
BAY COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004**

**NOTE 4. CAPITAL ASSETS**

Capital asset activity of the primary government for the current year was as follows:

<b>Governmental Activities</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital Assets Not Being Depreciated				
Land	\$ 61,570	\$ -	\$ -	\$ 61,570
Capital Assets Being Depreciated				
Land Improvements	202,962	6,423	-	209,385
Buildings and Improvements	188,740	26,631	-	215,371
Equipment	661,674	108,693	61,005	709,362
Furniture and Fixtures	18,676	-	-	18,676
Subtotal	1,072,052	141,747	61,005	1,152,794
Less Accumulated Depreciation for				
Land Improvements	166,661	6,107	-	172,768
Buildings and Improvements	92,711	7,667	-	100,378
Equipment	384,625	46,857	61,005	370,477
Furniture and Fixtures	3,999	2,911	-	6,910
Subtotal	647,996	63,542	61,005	650,533
Net Capital Assets Being Depreciated	424,056	78,205	-	502,261
Governmental Activities Capital Assets–Net of Depreciation	<u>\$ 485,626</u>	<u>\$ 78,205</u>	<u>\$ -</u>	<u>\$ 563,831</u>

**CITY OF AUBURN  
BAY COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004**

**NOTE 4. CAPITAL ASSETS (Continued)**

<b>Business-Type Activities</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital Assets Not Being Depreciated				
Land	\$ 36,000	\$ -	\$ -	\$ 36,000
Capital Assets Being Depreciated				
Sewer System	1,804,938	-	-	1,804,938
Water System	1,814,303	283,211	-	2,097,514
Subtotal	3,619,241	283,211	-	3,902,452
Less Accumulated Depreciation for				
Sewer System	619,319	36,017		655,336
Water System	470,595	36,393	-	506,988
Subtotal	1,089,914	72,410	-	1,162,324
Net Capital Assets Being Depreciated	2,529,327	210,801	-	2,740,128
Business-Type Activities Capital Assets–Net of Depreciation	<u>\$ 2,565,327</u>	<u>\$ 210,801</u>	<u>\$ -</u>	<u>\$ 2,776,128</u>

Depreciation expense was charged to programs of the City as follows:

Governmental Activities

General Government	\$ 14,400
Public Safety	2,911
Recreation and Culture	6,107
Internal Service Fund	40,124
Total Governmental Activities	<u>\$ 63,542</u>

Business-Type Activities

Sewer	\$ 36,017
Water	36,393
Total Business-Type Activities	<u>\$ 72,410</u>

**CITY OF AUBURN  
BAY COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004**

**NOTE 5. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The composition of interfund balances is as follows:

Fund	Interfund Receivable	Fund	Interfund Payable
General	\$ 130,600	Major Street	\$ 4,463
Major Street	43,659	Road Revolving	46,356
Local Street	4,463	Water	125,000
		Tax Collection	2,903
Total	<u>\$ 178,722</u>	Total	<u>\$ 178,722</u>

Interfund Transfers:

Fund	Transfers Out	Fund	Transfers In
General	\$ 66,616	Major Street	\$ 189,800
Major Street	26,313	Local Street	26,313
Road Revolving	275,503	Debt Service	173,483
Sewer	33,564	Water	12,400
Total	<u>\$ 401,996</u>	Total	<u>\$ 401,996</u>

**NOTE 6. LONG-TERM DEBT**

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties that directly benefitted from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

**CITY OF AUBURN  
BAY COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004**

**NOTE 6. LONG-TERM DEBT (Continued)**

Bond and contractual agreements can be summarized as follows:

	<u>Interest Rate</u>	<u>Principal Matures</u>	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities</b>						
Sewage Disposal Bonds	5.50 to 7.50%	2008	\$ 134,550	\$ (25,875)	\$ 108,675	\$ 25,875
Auburn Drain Contract	6.60%	2013	299,290	(29,929)	269,361	29,929
Transportation Bonds	5.05 to 5.60%	2015	495,000	(30,000)	465,000	30,000
General Obligation Bonds	5.05 to 5.60%	2015	<u>240,000</u>	<u>(15,000)</u>	<u>225,000</u>	<u>15,000</u>
			<u>\$ 1,168,840</u>	<u>\$ (100,804)</u>	<u>\$ 1,068,036</u>	<u>\$ 100,804</u>

Scheduled principal maturities of long-term debt for years subsequent to June 30, 2004 are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>
2005	\$ 100,804
2006	105,804
2007	107,529
2008	112,529
2009	89,929
Thereafter	<u>551,441</u>
Total	<u>\$ 1,068,036</u>

Interest and fiscal charges for the year totaled \$67,728; no interest costs were capitalized.

**NOTE 7. RISK MANAGEMENT**

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers compensation), as well as medical benefits provided to employees. The City purchases commercial insurance to cover the risks of these losses. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

**CITY OF AUBURN  
BAY COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004**

**NOTE 8. EMPLOYEES' RETIREMENT PLAN**

**Plan Description**--The City participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. The report may be obtained by writing to:

Municipal Employee Retirement Systems of Michigan  
447 North Canal Street  
Lansing, Michigan 48917  
(517) 622-4401

**Funding Policy**--The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment, for the year ended December 31, 2003, were determined using an attained age actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.

**Annual Pension Costs**--For the year ended June 30, 2004, the City's annual pension contribution was equal to \$25,017. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry age normal cost method. Significant actuarial assumptions used include: 1) an 8% investment rate of return; 2) projected salary increases of 4.5% per year plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increase ranging from 0.0% to 4.16%; and 3) various mortality rates, retirement rates and withdrawal rates for members based on experience studies.

Three year trend information as of December 31, 2003 follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Annual Pension Cost	\$ 25,017	\$ 24,070	\$ 29,650
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	0	0	0
Actuarial Accrued Liability	1,211,283	1,113,114	998,520
Actuarial Value of Assets	1,013,511	924,345	892,772
Unfunded (Overfunded) AAL	197,772	188,769	105,748
Funded Percentage	83.7%	83.1%	89.4%
Covered Payroll	307,741	292,774	269,605
UAAL as a Percentage of Covered Payroll	64.3%	64.5%	39.2%



**CITY OF AUBURN  
BAY COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004**

**NOTE 9. IMPLEMENTATION OF NEW ACCOUNTING STANDARD**

As of and for the year ended June 30, 2004, the City implemented GASB Statement Number 34 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The more significant changes required by the standard include a Management Discussion and Analysis; government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting; fund financial statements, consisting of a series of statements that focus on a governments' major funds; and schedules to reconcile the fund financial statements to the government-wide financial statements.

Management has elected to utilize the transition option in the implementation of GASB No. 34 and plans to capitalize the value of its network of streets as an infrastructure asset in its June 30, 2006 financial statements.

**CITY OF AUBURN**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**For the Year Ended June 30, 2004**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Property taxes and related fees	\$ 385,742	\$ 385,742	\$ 384,454	\$ (1,288)
Licenses and permits	2,250	2,250	2,174	(76)
State aid	200,000	200,000	201,888	1,888
Charges for services	100,500	100,500	118,482	17,982
Interest and dividends	10,000	10,000	12,792	2,792
Rents and royalties	4,500	4,500	4,359	(141)
Fines and forfeits	1,500	1,500	1,895	395
Special assessments	87,182	76,200	78,893	2,693
Donations and contributions	200	200	1,345	1,145
Miscellaneous	20,500	37,500	37,663	163
Total revenues	<u>812,374</u>	<u>818,392</u>	<u>843,945</u>	<u>25,553</u>
<b>EXPENDITURES</b>				
General Government:				
City commission	5,673	7,673	3,860	3,813
City administrator	85,930	77,230	72,216	5,014
Clerk/Treasurer	63,050	54,310	47,317	6,993
Assessing	17,580	17,580	17,778	(198)
Elections	7,220	7,220	6,724	496
Board of review	425	425	322	103
Buildings and grounds	31,860	40,410	43,693	(3,283)
All other general government	7,000	7,000	4,773	2,227
Public Safety:				
Fire district	56,500	56,500	55,208	1,292
Police department	175,600	175,600	166,510	9,090
Public Works:				
Public works	257,040	90,040	112,822	(22,782)
Solid waste	98,000	98,000	92,274	5,726
Street lights	21,000	21,000	20,387	613
Community/Economic Development:				
Community planning and development	2,370	10,950	7,816	3,134
Economic development	2,450	3,150	3,202	(52)
Recreation and Culture:				
Parks and recreation	67,300	67,300	65,267	2,033
Capital Outlay:				
General government	9,500	9,500	1,811	7,689
Police	1,000	1,000	917	83
Parks and recreation	35,000	35,000	33,054	1,946
Total expenditures	<u>944,498</u>	<u>779,888</u>	<u>755,951</u>	<u>23,937</u>
Excess (deficiency) of revenues over expenditures	<u>(132,124)</u>	<u>38,504</u>	<u>87,994</u>	<u>49,490</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers-out	(335,382)	(192,700)	(66,616)	126,084
Total other financing sources and uses	<u>(335,382)</u>	<u>(192,700)</u>	<u>(66,616)</u>	<u>126,084</u>
Net change in fund balances	<u>(467,506)</u>	<u>(154,196)</u>	<u>21,378</u>	<u>175,574</u>
Fund balances-beginning	<u>800,161</u>	<u>800,161</u>	<u>800,161</u>	<u>-</u>
Fund balances-ending	<u>\$ 332,655</u>	<u>\$ 645,965</u>	<u>\$ 821,539</u>	<u>\$ 175,574</u>

**CITY OF AUBURN**  
**BUDGETARY COMPARISON SCHEDULE**  
**MAJOR STREET**  
**For the Year Ended June 30, 2004**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
State aid	\$ 98,000	\$ 98,000	\$ 105,151	\$ 7,151
Interest and dividends	2,000	500	246	(254)
Miscellaneous	-	-	5,437	5,437
Total revenues	<u>100,000</u>	<u>98,500</u>	<u>110,834</u>	<u>12,334</u>
<b>EXPENDITURES</b>				
Signs/signals	4,680	4,680	3,039	1,641
Winter maintenance	17,910	22,770	21,725	1,045
Street administration	1,700	1,700	876	824
Maintenance	321,700	248,800	238,856	9,944
Total expenditures	<u>345,990</u>	<u>277,950</u>	<u>264,496</u>	<u>13,454</u>
Excess (deficiency) of revenues over expenditures	<u>(245,990)</u>	<u>(179,450)</u>	<u>(153,662)</u>	<u>25,788</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from debt obligations	-	-	-	-
Transfers-in	225,000	189,000	189,800	800
Transfers-out	(25,000)	(25,000)	(26,313)	(1,313)
Total other financing sources and uses	<u>200,000</u>	<u>164,000</u>	<u>163,487</u>	<u>(513)</u>
Net change in fund balances	<u>(45,990)</u>	<u>(15,450)</u>	<u>9,825</u>	<u>25,275</u>
Fund balances-beginning	<u>79,380</u>	<u>79,380</u>	<u>79,380</u>	<u>-</u>
Fund balances-ending	<u>\$ 33,390</u>	<u>\$ 63,930</u>	<u>\$ 89,205</u>	<u>\$ 25,275</u>

**CITY OF AUBURN**  
**BUDGETARY COMPARISON SCHEDULE**  
**LOCAL STREET**  
**For the Year Ended June 30, 2004**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>REVENUES</b>				
State aid	\$ 40,000	\$ 40,000	\$ 42,135	\$ 2,135
Interest and dividends	250	250	75	(175)
Miscellaneous	-	-	2,608	2,608
Total revenues	<u>40,250</u>	<u>40,250</u>	<u>44,818</u>	<u>4,568</u>
<b>EXPENDITURES</b>				
Signs/signals	4,230	4,230	1,348	2,882
Winter maintenance	14,285	23,505	20,696	2,809
Street administration	1,550	1,550	943	607
Maintenance	56,150	39,400	33,645	5,755
Total expenditures	<u>76,215</u>	<u>68,685</u>	<u>56,632</u>	<u>12,053</u>
Deficiency of revenues over expenditures	<u>(35,965)</u>	<u>(28,435)</u>	<u>(11,814)</u>	<u>16,621</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from debt obligations	-	-	-	-
Transfers-in	31,000	31,000	26,313	(4,687)
Transfers-out	-	-	-	-
Total other financing sources and uses	<u>31,000</u>	<u>31,000</u>	<u>26,313</u>	<u>(4,687)</u>
Net change in fund balances	<u>(4,965)</u>	<u>2,565</u>	<u>14,499</u>	<u>11,934</u>
Fund balance-beginning	<u>24,720</u>	<u>24,720</u>	<u>24,720</u>	<u>-</u>
Fund balances-ending	<u>\$ 19,755</u>	<u>\$ 27,285</u>	<u>\$ 39,219</u>	<u>\$ 11,934</u>



**CITY OF AUBURN**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**June 30, 2004**

	<u>Special Revenue Funds</u>		<u>Debt Service Funds</u>				<u>Total</u>
	<u>Road</u>	<u>Building</u>	<u>1980 G.O. Bonds</u>	<u>1992 G.O. Bonds</u>	<u>2000 Michigan</u>	<u>2000 G.O. Bonds</u>	<u>Nonmajor</u>
	<u>Revolving</u>	<u>Inspection</u>	<u>Sewage Disposal</u>	<u>Auburn Drain</u>	<u>Transportation Bonds</u>	<u>Midland Road</u>	<u>Governmental</u>
					<u>Midland Road</u>		<u>Funds</u>
<b>ASSETS</b>							
Cash and cash equivalents	\$ 214,963	\$ 16,697	\$ 1,283	\$ 7,637	\$ 20	\$ 20	\$ 240,620
Taxes receivable, net	7,711	-	-	-	-	-	7,711
Other receivables	62	-	-	-	-	-	62
Total assets	<u>\$ 222,736</u>	<u>\$ 16,697</u>	<u>\$ 1,283</u>	<u>\$ 7,637</u>	<u>\$ 20</u>	<u>\$ 20</u>	<u>\$ 248,393</u>
<b>LIABILITIES AND FUND BALANCES</b>							
Liabilities:							
Accounts payable	\$ -	\$ 150	\$ -	\$ -	\$ -	\$ -	\$ 150
Due to other funds	46,356	-	-	-	-	-	46,356
Total liabilities	<u>46,356</u>	<u>150</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>46,506</u>
Fund balances:							
Unreserved and undesignated	176,380	16,547	1,283	7,637	20	20	201,887
Total fund balances	<u>176,380</u>	<u>16,547</u>	<u>1,283</u>	<u>7,637</u>	<u>20</u>	<u>20</u>	<u>201,887</u>
Total liabilities and fund balances	<u>\$ 222,736</u>	<u>\$ 16,697</u>	<u>\$ 1,283</u>	<u>\$ 7,637</u>	<u>\$ 20</u>	<u>\$ 20</u>	<u>\$ 248,393</u>

**CITY OF AUBURN**  
**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2004**

	Special Revenue Funds		Debt Service Funds				Total Nonmajor Governmental Funds
	Road Revolving	Building Inspection	1980 G.O. Bonds Sewage Disposal	1992 G.O. Bonds Auburn Drain	2000 Michigan Transportation Bonds Midland Road	2000 G.O. Bonds Midland Road	
<b>REVENUES</b>							
Property taxes and related fees	\$ 219,281	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 219,281
Licenses and permits	-	14,422	-	-	-	-	14,422
Interest and dividends	2,709	43	-	4	-	-	2,756
Total revenues	221,990	14,465	-	4	-	-	236,459
<b>EXPENDITURES</b>							
Public safety	-	13,173	-	-	-	-	13,173
Public works	22	-	-	-	-	-	22
Debt service	-	-	33,564	49,266	57,318	28,385	168,533
Total expenditures	22	13,173	33,564	49,266	57,318	28,385	181,728
Excess (deficiency) of revenues over expenditures	221,968	1,292	(33,564)	(49,262)	(57,318)	(28,385)	54,731
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers-in	-	-	33,564	54,216	57,318	28,385	173,483
Transfers-out	(275,503)	-	-	-	-	-	(275,503)
Total other financing sources and uses	(275,503)	-	33,564	54,216	57,318	28,385	(102,020)
Net change in fund balances	(53,535)	1,292	-	4,954	-	-	(47,289)
Fund balances-beginning	229,915	15,255	1,283	2,683	20	20	249,176
Fund balances-ending	\$ 176,380	\$ 16,547	\$ 1,283	\$ 7,637	\$ 20	\$ 20	\$ 201,887



November 5, 2004

Members of the City Commission  
City of Auburn  
Bay County, Michigan

Dear Commission Members:

In planning and performing our audit of the financial statements of the City of Auburn, for the year ended June 30, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated November 5, 2004 on the financial statements of the City of Auburn. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:

#### MANAGEMENT COMMENTS

##### Financial Oversight

The general limitations in any smaller municipalities like the City of Auburn requires that City Commission members continue to remain involved in the financial affairs of the City through oversight of operation, development of the annual budget, inquiries about variance between budgeted and actual amounts shown in the financial statements, and the independent review of critical functions. Based on inquiries, the City Commission performs these duties and our comment here is intended to emphasize the importance of its oversight.

##### Compensated Absences Record Keeping

In our previous comments and recommendations letter, we recommend the City Clerk/Treasurer maintain vacation and sick time records that are integrated with the City's computerized payroll system. This recommendation was not implemented during the year. We again make this recommendation to improve the City Clerk/Treasurer's effectiveness in processing payroll.

Revenue and Expenditure Projections

During our audit we noted the City Manager does not make projections of revenues and expenditures beyond the one year budget cycle. We recommend this analysis be made part of the budgeting process and estimate revenue and expenditures for three years beyond the current budget cycle. Following this recommendation will highlight potential financial difficulties and allow Commissioners time to evaluate the effect on City services.

Conclusion

These conditions were considered in determining the nature, timing, and extent of the audit tests applied on our audit of the June 30, 2004 financial statements, and this report does not affect our report on those financial statements dated November 5, 2004. We have not considered internal control since the date of our report.

This report is intended for the information of the members of the City Commission, management and the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

A handwritten signature in cursive script that reads "Burnside & Lang, P.C.".

**BURNSIDE & LANG, P.C.**